

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 ISO-00 SS-15 CIAE-00 INR-10

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FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC IMMEDIATE 2988

INFO AMCONSUL MELBOURNE

AMEMBASSY OTTAWA

AMEMBASSY TOKYO

AMCONSUL TORONTO

C O N F Q D E V T I A L SECTION 1 OF 2 CANBERRA 2798

E.O. 11652: GDS

TAGS: EMIN, OTRA, AS

SUBJ: AUSTRALIAN INTEREST IN DIALOGUE ON WORLD NICKEL PROBLEMS

REF: (A) STATE 091764, (B) STATE 78297, (C) CANBERRA 2339

(ALL NOTAL)

1. EXIM TEAM (MASSEY, TELESCA, AND MALLOY) AND EMBOFF

MEETING WITH GOA OFFICIALS TO DISCUSS GREENVALE NICKEL PROJECT FINANCING PROBLEMS (REFTELS B AND C) WAS CHAIRED FOR AUSTRALIANS BY P. CONNOLLY, FIRST ASSISTANT SECRETARY, MINERALS DIVISIONNUMBER TWO, DEPARTMENT OF TRADE AND RESOURCES. GOA OFFICIALS ALSO INCLUDED P. GMUGH AND G.J. CLARKE OF DEPARTMENT OF TRADE AND RESOURCES; K. SMITH FROM THE PRIME MINISTER'S DEPARTMENT AND ALLEN HARRIS FROM DEPARTMENT OF FINANCE.

2. RE AUSTRALIAN INTEREST IN DIALOGUE BETWEEN PRODUCERS AND CONSUMERS OF NICKEL WITH A VIEW TO AMELIORATING THE PROBLEMS OF DEVRESSED WORLD NICKELINDUSTRY (REFTEL A) CONNOLLY DID
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CONFIRM THIS INTEREST.

3. CONNOLLY SAID THAT VOA'S INITIAL INTEREST ARE:

A) A PRODUCER/CONSUMER FORUM

B) FORUM IN (A) OUTSIDE THE CONTEXT OF THE UNCATD

C) A STUDY GROUP ALONG THE LINES OF THE INTERNATIONAL LEAD ACD ZINC STUDY GROUP; AND

D) THAT A COMMODITY AGREEMENT IS NOT ENTIRELY RULED OUT OF CURRENT GOA THINKING.

4. BY WAY OF ELABORATION, CONNOLLY TOLD US THAT HE HAD RECENTLY RETURNED FROM CANADA (AND ALSO BEFORE THAT FROM JAVA) WHERE HE HAD HAD DISCUSSIONS WITH THE GOC, WITH THE GOVERNMENT OF THE PROVINCE OF ONTARIO AND WITH INCO AND FALKENBRIDGE WITH RESPECT TO NICKEL. HE SAID THAT, IN ADDITION TO THE CANADIAN INDUSTRY AND GOC VIEWS, HE HAD BEEN MADE AWARE OF THE RECENT ONTARIO GOVERNMENT REPORT ON THE DEVELOPMENT OF ITS NICKEL RESOURCES. THE CONSENSUS IS THAT LONG RANGE PROJECTIONS ARE NOT OPTIMISTIC. THE OVERALL VIEW IS THAT THE HISTORICAL GROWTH RATE OF 5-6 PERCENT IN PRODUCTION WILL NOT BE ACHIEVED IN THE YEARS IMMEDIATELY AHEAD AND THAT THE RANGE IS NOW PERCEIVED TO BE IN THE RANGE OF 3-5 PERCENT.

5. BASED, IN PART, ON THE CONVERSATIONS WITH THE CANADIANS, BUT ALSO ON INFORMATION PUT TO THE GOA BY ITS INDUSTRY, CONNOLLY SAID THAT THE GOA'S ATTITUDE IS ENTIRELY OPEN-MINDED. THEY HAVE NO INTEREST IN PRICE FIXING; THEIR INTEREST IN A STUDY GROUP ALONG THE LINES OF THE LEAD/ZINC STUDY GROUP GROWS OUT OF A REALIZATION THAT THERE IS A REAL NEED TO UP-GRADE THE STATE OF KNOWLEDGE OF NICKEL PRODUCTION AND CONSUMPTION PATTERNS; TO MONITOR THE SITUATION IN PRODUCER AND CONSUMER COUNTRIES SO THAT THERE WOULD ENSUE (AND INDEED

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SUCH A GROUP COULD ENCOURAGE) A BETTER INTERNATIONAL ENVIRONMENT AND UNDERSTANDING OF CONSUMER AND PRODUCERS PROBLEMS THUS LEADING TO BETTER ENVIRONMENT LEADING TO SOUND INVESTMENT AND MARKETING DECISIONS.

6. THE STUDY GROUP COULD SERVE AS A MORE DISCIPLINED PLATFORM TO VENTILATE PROBLEMS, EXCHANGE INFORMATION AND TO PROVIDE KNOWLEDGE ON THE SUPPLY AND DEMAND SITUATION. IN THIS CONTEXT, CONNOLLY SAID THAT THE GOA HAS NO INTEREST IN THE UNCTAD SINCE IT WOULD TAKE TWO YEARS IF EVER TO GET ANYTHING DONE OR EVEN TO COME TO ANY CONSENSUS ON WHAT FORM A PRODUCER/CONSUMER STUDY GROUP MIGHT EVEN TAKE.

7. BASED ON THE INPUTS TO THE GOA FROM ITS OWN INDUSTRY, AND FROM ITS SOUNDINGS FROM THE CANADIANS (GOA AND INDUSTRY) CONNOLLY SAID THAT THE CURRENT PATTERN IN THE INDUSTRY (AS HE SEES IT NOW) IS FOR THE PRODUCERS TO BE ACCUMULATING STOCKS; PREDATORY PRICING HAS BEEN MODERATING; CONSUMERS HAVE BEEN GRADUALLY DRAWING DOWN ON STOCKS AND THAT, WHILE PRODUCERS HAVE BEEN ADJUSTING TO THE PAINFUL PROCESS OF CUTTING BACK IN PRODUCTION, SOME SIX MONTHS OF RELATIVE PRICE STABILITY IN THE MARKET HAVE ALLOWED THE PRODUCERS

TO MAKE SOME NOMINAL PRICE INCREASES. NEVERTHELESS, GIVEN THE CLIMATE OVER RECENT YEARS, THE GOA NOW SUPPORTS THE COMMERCIAL LEVEL MOVEMENTS TOWARD ORDERLY MARKETING AT THE INTERNATIONAL LEVEL THROUGH AT LEAST INITIALLY, THE STUDY GROUP CONCEPT.

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8. CONNOLLY CONFIRMED THAT WALDRON WILL BE IN WASHINGTON ON MONDAY THE EIGHTEENTH TO DISCUSS THESE DEVELOPMENTS WITH U.S. AUTHORITIES. HE SAID THAT HIS INITIAL DISCUSSIONS WITH THE JAPANESE (WHICH WE WERE UNABLE TO EXPLORE IN DEPTH) LEAD HIM TO BELIEVE THAT THE JAPANESE ARE INTERESTED IN THE AUSTRALIAN IDEAS.

9. THE GOA OFFICIALS GAVE THE U.S. GROUP THE STRONG IMPRESSION THAT THE GOA IS VERY SERIOUSLY CONCERNED ABOUT THE INVESTMENT CLIMATE IN AUSTRALIA IN THE MINING SECTOR. THE GOA OFFICIALS STOPPED SHORT OF OFFERING ANY HOPE OF ASSISTANCE TO GREENVALE; NEVERTHELESS, THEY SUGGESTED THAT THE GOA WANTS TO DO EVERYTHING IN ITS POWER TO IMPROVE THE DOMESTIC AND INTERNATIONAL CLIMATE FOR SUCH INVESTMENTS AND THUS QOS INTEREST IN EXPLORING THE NICKEL DIALOGUE.

10. EMBOFF CALL WITH COUNTRY DIRECTOR HURWITZ ON THURSDAY ON AUSTRALIAN MINING INDUSTRY COUNCIL (AMIC) FOR DISCUSSIONS AND TO OBTAIN VIEWS ON SUCH SUBJECT AS THE FRASER ISLAND AFFAIR. THIS CALL CONFIRMED THE AMIC

INPUTS TO THE GOA VIEWS ON THE NICKEL SITUATION AND
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PARTICULARLY AMIC'S PERCEPTION OF THE GOA'S VERY SERIOUS
CONCERN TO CREATE THE SORT OF CLIMATE WHICH WOULD CONTINUE
TO INDUCE OVERSEAS INVESTORS TO LOOK FAVORABLY ON AUSTRALIA
FOR MINERAL INVESTMENTS PARTICULARLY IN VIEW OF AMIC'S
ASSESSMENT OF THE BAD DECISION MADE BY THE AUSTRALIAN GOVERNMENT
ON THE FRASER ISLAND AFFAIRS.

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